PHILIPPINES ECONOMIC WRAP-UP
JANUARY 27-FEBRUARY 2, 2001

Summary

As the new government of President Macapagal-Arroyo starts to find its feet, a review of economic activity in the fourth quarter of 2000 shows (to no one's surprise) that growth slowed amidst the political turmoil that led to the ouster of former President Estrada. With legislative time running out, the new economic team is still debating how best to deal with the fact that the Congress still has not passed a government budget for 2001. We report on the President's first major step to rationalize the policy making process by dissolving the Economic Coordinating Council and returning those functions to the National Economic Development Authority and to the Cabinet. The end of the political crisis seems to have revived interest in the retailing sector. And we note that the Philippines is still heavily dependent on quotas to export its garments. End Summary.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our October Economic Outlook, which is also available on our web site. The next edition of the Outlook has been revised to reflect recent political developments and should be available by mid-February.

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Market and Policy Developments

FOREX REPORT

After its euphoric recovery in the aftermath of the installation of new Philippine president Gloria Macapagal Arroyo, the Philippine peso resumed a more stable path this week. Markets renewed their focus on key fundamentals such as interest rates (particularly the differential between U.S. and Philippine rates) and expectations about the domestic budget deficit for 2001. From its close of P49.72/US$ on January 29, the peso strengthened slightly to close on February 2 at P49.12/US$. Daily trading volume averaged over $122 million; for 2000 as a whole the average daily trading volume was $133 million/day.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
DEC 25	Markets Closed		
26	49.443	49.420	134.5
27	49.372	49.910	88.0
28	49.998	49.870	154.6
29	49.986	50.010	65.5
JAN 01	Markets Closed		
02	51.294	51.000	84.0
03	51.025	51.040	128.5
04	50.953	50.970	126.2
05	51.092	51.000	145.5
JAN 08	50.939	50.940	93.0
09	50.902	50.935	77.0
10	51.064	51.150	112.0
11	51.325	51.325	149.5

12	51.460	51.590	99.6
JAN 15	51.978	52.400	134.1
16	52.649	52.780	158.0
17	54.808	54.625	70.0
18	55.013	54.790	118.5
19	53.357	47.500	101.6
JAN 22	48.207	49.300	188.3
23	49.750	49.200	122.2
24	48.473	48.350	150.0
25	48.638	48.840	116.0
26	49.321	49.720	124.3
JAN 29	49.676	49.480	126.0
30	49.412	49.600	110.6
31	49.221	48.975	99.4
FEB 01	49.150	49.160	168.0
02	49.215	49.120	118.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

With new Secretary of Finance Alberto Romulo declaring that "the best way to pump-prime the economy is to bring down interest rates," rates at the regular Monday auction of Treasury bills did just that. With the overhanging expectations of a U.S. rate cut helping, rates on the 91-day treasury bill fell 59.5 basis points to 11.165%. Rates on the 91-day paper peaked in 2000 at 16.723% on November 6. The drop in the rates on 182-day and 364-day bills was more modest; they fell by 37.5 basis points and 43.7 basis points to 12.181% and 12.699% respectively. Markets demonstrated that ample liquidity still exists; over P14 billion worth of bids were received for the P4 billion worth of bills on offer.

At the Tuesday T-bond auction, rates on the 5-Year T-bond fell 87.5 basis points to 15%; P3 billion worth of bonds were offered, but only P2.961 billion were sold with just over P3 billion in bids received.. One trader said that "the market is divided whether to buy short-term or longterm." Analysts noted that interest rates could go down to single digits if the government seriously targets a budget deficit around P130 billion, but many are skeptical that the deficit can be contained below P200 billion (see below).

In reaction to the U.S. move on January 31 to cut the federal funds rate target by 50 basis points, the policy-making Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central bank) announced on February 1 that it was cutting its overnight borrowing and lending rates to 11.5% and 13.75% respectively. This is the fourth policy rate cut announced by the BSP since early December; rates have now fallen by 350 basis points. With further U.S. rate cuts widely anticipated, even before the next Fed meeting on March 20, many Philippine traders expect the BSP still has room to make further cuts.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
DEC 18	12.931	14.724	15.067
JAN 02	12.883	rejected	rejected
JAN 08	12.598	13.657	14.240
JAN 15	12.365	13.657	14.237
JAN 22	11.760	12.556	13.136
JAN 29	11.165	12.181	12.699

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
DEC 21	17.4326	14.50 - 20.00
JAN 04	17.3220	14.50 – 20.00
JAN 11	17.1677	14.50 – 20.00
JAN 17	17.1154	14.50 – 21.00
JAN 25	16.8757	13.50 – 20.00
FEB 01	16.4046	12.75 – 20.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The 33-share Philippine Stock Index (PHISIX), after having bottomed out at around 1400 amidst the political crisis which culminated in the installation of President Macapagal-Arroyo, seems to have bounced back and found a new trading floor of about 1650. However, the rally also seems to have found a near-term ceiling of 1700. Traders and investors seem to have bought back into blue-chips and other bargains but further growth in equity values will depend on increased expectations of profitability. One owner of a trading house said that there was a one time leap, but further growth will require the development and implementation of an economic recovery plan by the new administration. Overall, the PHISIX ended the week at 1669.58, down 2.3% from its January 29 close of 1708.18.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
DEC 25	Markets Closed	
26	1467.82	607
27	1464.21	1781
28	1486.46	677
29	1494.50	5400
JAN 01	Markets Closed	
02	1448.49	379
03	1450.96	216
04	1475.11	366
05	1469.08	302
JAN 08	1494.38	522
09	1531.82	682
10	1534.15	962
11	1515.89	609

12	1541.65	798
JAN 15	1567.93	1910
16	1551.79	1359
17	1458.63	1876
18	1438.21	1114
19	1452.93	1204
JAN 22	1708.06	7161
23	1662.30	2724
24	1665.43	1153
25	1639.18	877
26	1708.18	6074
JAN 29	1686.28	1319
30	1668.43	728
31	1687.00	1159
FEB 01	1669.13	601
02	1669.58	616

Source: Philippine Stock Exchange

ECONOMIC GROWTH SLOWED DURING FOURTH QUARTER OF 2000

According to new government estimates, Philippine Gross Domestic Product (GDP) slowed to 3.6% year-on-year growth during the last quarter of 2000, after expanding by 4.5% or more during the second and third quarters. The deceleration had been widely expected in the midst of the political and economic uncertainties exacerbated by the gambling scandal implicating President Estrada and the uncertain fate of the subsequent impeachment trial. Fourth-quarter Gross National Product (GNP) increased by 4.4% in real peso terms over its comparable 1999 level despite the slowdown in domestic production, boosted by a 20.2% year-on-year expansion in net factor incomes (mainly overseas workers' remittances and earnings on residents' offshore portfolio investments).

On the expenditure side, the fourth-quarter statistics show that total demand (i.e., the sum of consumer spending, government consumption, investments, and exports) rose 7.2% year-on-year in real peso terms, despite the political and economic uncertainties. While government spending was flat year-on-year (because of the government's problematic finances) and private-sector construction-related demand remained weak, consumer spending, exports, and capital formation surpassed their respective year-ago growth rates as well as those during 2000's first three quarters. The 3.7% year-on-year expansion in fourth-quarter capital spending mainly reflected a build-up in inventory levels after the net draw-downs generally seen since 1998, with recovering investments in durable-equipment also contributing.

That overall demand markedly outpaced GDP growth indicates that fourth-quarter imports (up 15.5% year-on-year after the lethargic growth of previous quarters) supplied a larger share (65%) of the growth in overall spending relative to domestic output (35%). More than a third of the expansion in merchandise imports was for oil and petroleum products. Inputs for import-dependent exports (mainly electronics and garments) also contributed to the year-on-year import expansion. Moreover, escalating overhead and operating expenses (i.e., wage hikes, upward adjustments in domestic oil prices and utility rates, and higher financing costs) may have made it more difficult for producers to supply domestic and foreign demand.

As for output, all major sectors (i.e., agriculture, industry, and services) decelerated compared with year-ago, as well as second and third-quarter 2000, growth rates. At 2.8% growth year-on-year, fourth-quarter industrial sector output sputtered to its slowest rate since the last quarter of 1999. Manufacturing sub-sector output (which contributes about a fourth of Philippine GDP and over 70% of industrial production) increased by 4.3%, after expanding by more than 6% during the first three quarters of 2000. At 2.4%, the utilities sub-sector posted its lowest rate of expansion since the third quarter of 1999 (reflective of the slowdown in domestic economic activity), while the construction sub-sector posted a fourth consecutive quarter of negative year-on-year growth.

On a full-year basis, real GDP expanded 3.9% year-on-year and GNP by 4.2% (compared with comparable 1999 growth rates of 3.3% for GDP and 3.7% for GNP). At a 99%

confidence interval, the government estimates that actual GDP growth was anywhere between 3.8% to 4.0%, versus the 4% to 5% targeted growth range for 2000. 2000’s faster overall expansion was spurred mainly by the private non-agricultural sector. Agricultural growth slowed to more normal levels after 1999’s rebound from drought-induced 1998 losses, while the government moved from pump-priming to fiscal tightening.

Expectations for economic growth for 2001 have improved since the peaceful assumption of the Philippine presidency by Gloria Macapagal-Arroyo on January 20. Early this year, the former Estrada government’s scenarios ranged anywhere from 2% to 3.5% GDP growth, depending on the speed and credibility of the impeachment proceedings. The newly installed Secretary for Socioeconomic Planning Dante Canlas has indicated he is now looking at a 3.8%-4.3% targeted GDP growth range for this year. For now, many private economists predict 2001 GDP growth at the lower end of that range (if not somewhat lower) -- citing, among others, the threat of another (albeit milder) dry spell, the weak state of public sector finances, and the expected slowdown in the global economy. Actual growth will also depend on how quickly and effectively the new political and economic teams get down to business and investment confidence recovers under the Macapagal-Arroyo administration.

YEAR-ON-YEAR GDP AND GNP GROWTH
(Real Terms, In %)

	1999	2000		Jan – Dec	
	Q4	Q3	Q4	1999	2000 a/
GDP	4.9	4.6	3.6	3.3	3.9
Net Factor Income	8.9	6.3	20.2	10.1	9.0
GNP	5.1	4.6	4.4	3.7	4.2
Industrial Origin					
Agriculture	6.6	5.3	3.8	6.0	3.4
Industry	3.8	3.9	2.8	0.9	3.6

Mining/Quarry	14.8	0.5	6.4	(8.4)	8.7
Manufacturing	3.7	6.1	4.3	1.6	5.6
Construction	1.6	(5.4)	(5.0)	(1.6)	(6.0)
Elect, Gas, Water	5.2	3.4	2.4	3.1	3.7
Services	5.0	4.8	4.1	4.1	4.4
Transp, Communic.	6.7	10.7	10.7	5.3	9.9
Trade	6.1	6.5	4.9	4.9	5.6
Finance	2.2	1.3	0.1	1.9	0.9
Real Estate	1.2	(0.2)	(1.9)	0.6	0.3
Private Serv.	6.0	4.1	5.0	5.8	4.7
Gov't Serv.	4.2	0.9	0.9	3.7	0.9
Expenditure Share					
Personal Consumption	2.9	3.7	3.9	2.6	3.5
Gov't Consumption	6.5	1.8	(0.1)	5.3	0.2
Capital Formation	(4.8)	2.0	3.7	(1.7)	0.8
Fixed Capital	(0.3)	(2.4)	(0.1)	(2.0)	(1.6)
Construction	0.7	(5.9)	(4.0)	0.2	(5.4)
Durable Equip.	(2.1)	1.4	3.9	(5.0)	2.6
Change in Stocks (Billion Pesos)	(1.4)	(1.9)	0.4	(7.3)	(2.6)
Exports b/	8.9	18.3	22.4	3.6	16.4
Less: Imports b/	6.6	(2.1)	15.5	(2.8)	2.4

a/ Advance estimates (i.e. full-year estimates from partial 2000 data for some items) as of January 2001
b/ Goods and services

Source: National Statistical Coordination Board

BUDGET UPDATE

Department of Finance (DOF) officials told the Embassy that the inter-agency Development Budget Coordinating Committee (DBCC) was meeting February 2 to firm-up the government's 2001 fiscal program. They said the overall goal was to contain the fiscal deficit to between P130-P145 billion for the year –- which will require both revenue collection improvements and fiscal austerity. The DBCC also will map out the government's position on the 2001 budget which, with barely a week to go before the Philippine Congress' scheduled adjournment on February 8, remains pending in the Senate finance committee. (Note: the Philippine fiscal year coincides with the calendar year. End Note.) DOF officials said that one of the possible, expedient approaches being considered was to push for Senate approval of the P715 billion budget authorization approved by the Lower House last December. While considered unaffordable given the current state of government finances, President Macapagal Arroyo could then exercise "line-item veto" powers on specific expenditure items which could be deferred to keep the deficit in check. Compared with simply adopting the 2000 budget authorization (another option), a new budget would give the government more flexibility to undertake new projects and programs for the year (including those funded by already committed official development loans).

DOF officials told the Embassy that the DBCC also was expected to have some discussions on financial aspects of the pending power restructuring bill (especially the privatization of debt-saddled National Power Corporation). In earlier interviews, President Macapagal-Arroyo had indicated that she would not push for passage of the bill (currently in the bicameral conference committee) because of the additional burden it would pose on government finances. However, there appears to be a growing consensus that power sector restructuring (the subject of two full years of legislative action and supported by several major international aid donors) deserves much more analysis -- rather than writing if off until the next Congress convenes in July.

Various reports indicate that the government is now seriously considering calling for special congressional sessions to wind-up pending priority legislation. DOF officials told the Embassy that representatives from the executive and legislative branches are scheduled to meet early next week.

While the fate of the 2001 national budget remained uncertain as the week closed, the Senate did pass a separate bill -- identical to the one which hurdled the Lower House -- providing the Commission on Elections with a P2.5 billion budget for the May congressional and local elections.

ECONOMIC COORDINATING COUNCIL TO BE DISSOLVED

The Economic Coordinating Council (ECC), created by former President Estrada to be the premier economic policy-making body in the Philippine government, will be dissolved by the new administration of President Magapagal-Arroyo. Estrada created the body amidst accusations that too often key economic policies were being influenced by cronies in his "midnight cabinet". Comprising key cabinet officials, the ECC was hailed by many as a key step forward. However, new Secretary for Socioeconomic Planning and Development and concurrent chairman of the National Economic Development Authority (NEDA) Dante Canlas said that the ECC unnecessarily duplicated the work of NEDA in coordinating economic and development policies.

In a February 2 speech before 11 of the most influential business groups in the Philippines (including the Makati Business Club and the Management Association of the Philippines), President Macapagal-Arroyo said that the dissolution of the ECC means that NEDA will again take the lead in coordinating economic policy. She went on to say that under her administration the Cabinet would be the center for policy formulation and coordination -- and that her cabinet met "in the morning, not at midnight."

U.S. RETAILER PRICE SMART TO OPEN FIRST STORE IN APRIL

With the improved confidence level arising from the change in political leadership, US retailer Price Smart has started construction of its first store in the Philippines at a 1.5-hectare property inside the Global City in Fort Bonifacio, Taguig (adjacent to Makati City), press reports say. Fort Bonifacio Development Corporation (FBDC) vice president for marketing and corporate communications Ronaldo Mayor has said Price Smart, which specializes in membership shopping warehouses, has opted to operate independently, while other foreign groups have been scouting for local partners. To be wholly-owned, Price Smart must have paid-up capital of at least (the equivalent in Philippine pesos of) $7.5 million. Price Smart would be the second foreign retailer to enter the country's newly liberalized retail trade sector (first was Taiwanese retailer President Chain Store Corp. which teamed up with 7-Eleven). Another US retailer, Wal-Mart Stores, is currently holding talks with the Uniwide Sales Group for a possible joint venture.

Re-appointed Trade and Industry (DTI) Secretary Manuel A. Roxas has said among his top priority in his second tour of duty as DTI head is woo back foreign retailers that were scared off by the then worsening political crisis in the country. French retailer Casino was close to taking over the Uniwide Sales group last year, but abandoned its plan at the last minute following the December 30 bombings in Metro Manila. The political crisis also caused another French retailer, Carrefour, to break off discussions with the Rustan group of the Tantoco family for a joint venture.

U.S. TAKES 75% OF PHILIPPINE GARMENT EXPORTS IN 2000
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The U.S. remains the largest market for Philippine-made garments, accounting for nearly three-fourths of total shipments in 2000 worth $3.2 billion, and 84% of total quota exports of $2.8 billion, the Garments and Textile Export Board (GTEB) reported. Shipments to the U.S. totaled $2.4 billion, up 12% from $2.14 billion in 1999. Sales to the European Union, the second largest quota market, grew 16% to $373 million or 13% of quota exports.

The Philippines continues to have great difficulty breaking out of its dependence on sales to quota countries, which accounted for 88% of total 2000 apparel shipments of $3.2 billion. Aggregate sales to quota countries rose 15% year-on-year, from $2.46 billion to $2.83 billion. Garment exporters continue to gain ground in non-quota countries as sales to these markets rose 10 percent year-on-year to $370 million, representing 12% of total garment shipments. Top buyers in this category are Japan, Hong Kong, and the United Arab Emirates. Although a weaker peso makes Philippine goods cheaper, a GTEB official commented that in most Asian markets Philippine-made garments are no longer price competitive.